



THE AMERICAN
ACCOUNTING ASSOCIATION PLENARY SESSION

The Honorable David M. Walker, CPA
Comptroller General of the United States
United States Government Accountability Office

Orlando, Florida
August 10, 2004

Accountability Environment

- The credibility of auditing and financial reporting has suffered in the last several years as a result of the accountability failures in the private sector.
- Forces that led to the corporate scandals and audit failures include:
 - Individual and corporate greed
 - Inadequate corporate governance systems
 - Ineffective regulation and oversight of the accounting and auditing profession
 - Inadequate accounting/reporting standards
 - Audit-related expectation gaps
 - Financial managers and advisors working to achieve certain reporting results and focusing on the legal form versus the economic substance of the transactions
 - Unreasonable and inappropriate executive compensation arrangements
 - Auditors and financial professionals doing what was minimally required and actively fighting tighter standards
 - Confusion over whom the auditors work for
 - Auditors delivering services to clients that impaired their independence

Sarbanes-Oxley Act

- The Sarbanes-Oxley Act of 2002 included reforms in corporate governance and the accounting profession intended to
 - improve corporate financial reporting and internal control
 - strengthen audit committees
 - change the relationship between the auditor and client
 - improve auditor independence
 - provide additional auditor assurance over internal control
 - provide oversight and regulation for auditors of publicly traded companies
- Reforms are currently being implemented, and final impact is still uncertain.

Sarbanes-Oxley Act Provisions with Implications for Government

New audit standards and oversight—PCAOB

- Audit committees with defined responsibilities
- Specific communications between auditors and audit committees
- CEO and CFO certification of financial reports
- Enhanced disclosures of off-balance sheet transactions
- Code of ethics for senior financial officers
- Management attestation on the effectiveness of internal control over financial reporting
- Auditor opinion on the effectiveness of internal control over financial reporting

Excerpts From the 103rd American Assembly Report: The Future of the Accounting Profession*

- Structural Challenges Facing the Accounting Profession:
 - Rules-based versus principles-based standards
 - A revised and expanded financial reporting model
 - New and enhanced audit and attestation standards
 - The number of major accounting/audit firms
 - A balanced approach to auditor liability and accountability
 - Valuing quality audits and audit personnel
 - Reinvigorating audit committees
 - Preparing for the future—the talent search

*Report by The American Assembly, Columbia University, at its national meeting, Lansdowne Resort, Leesburg, Va., November 13-15, 2003, amassembly@columbia.edu

Rebuilding Public Trust

For any system to work, it must address three fundamental issues.

- First, provide incentives for people to do the right thing.
- Second, provide transparency to help assure that people do the right thing.
- Finally, have effective accountability mechanisms if people don't do the right thing.

Restoring public trust will require that every participant in the corporate reporting supply chain embrace and live by the following core concepts*

1. **A spirit of transparency**—stop playing games with financial and performance data. Use full disclosure.
2. **A culture of accountability**—management, staff, boards, auditors, and stakeholders. High quality, unbiased information to support decision-making.
3. **People of integrity**—commitment to individual integrity.

*Excerpts from Building Public Trust: The Future of Corporate Reporting, Samuel DiPiazza, Jr. and Robert G. Eccles, 2002

GAO's Work to Modernize the Accountability Profession

GAO is actively working to modernize and transform the accountability profession, both inside the government and in the private sector, and to lead by example in this area.

- Opinion on system of internal control
- Independence Standard issued in 2002
- Nature of GAO's audit opinion and related products and public activities
- Assistance to the Congress in evaluating accountability profession issues and needed reforms prior to the Sarbanes-Oxley Act
- 2003 revision of *Government Auditing Standards*
- Creation of the U.S Auditing Standards Coordinating Forum (i.e., GAO, PCAOB, ASB)
- Coordination with accountability organizations around the world (e.g., INTOSAI)
- Comment on proposed standards
- Monitor implementation of the Sarbanes-Oxley Act
- Sarbanes-Oxley studies on accounting firm consolidation from Big 8 to Big 4 and on mandatory audit firm rotation
- Definition of success in financial management: clean opinion, no major weaknesses in controls or compliance, and financial systems that produce timely, accurate and useful information for management
- Enhance federal financial management, reporting, and accountability

Selected Federal Government Reporting Challenges

- Financial and Performance Reporting
 - long-range fiscal challenges (e.g., per capita burden)
 - “trust funds” (e.g., restricted vs. unrestricted revenues, intra-governmental obligations)
 - DOD assets, liabilities, and contingencies
 - performance reporting
- Audit Reporting
 - system of internal control
 - financial vs. performance vs. other information

The Future Accounting/Reporting and Audit Reporting Model

- We need to review and revise the existing accounting/reporting model to reflect several dimensions:
 - Generic provisions
 - Industry information
 - Entity-specific information (i.e., value and risk)
- We need to recognize the difference between certain types of financial and other information:
 - Historical cost
 - Readily marketable assets
 - Non-readily marketable assets
 - Projection information
 - Performance information

The Future Accounting/Reporting and Audit Reporting Model

- We need to review and revise the existing audit reporting model to accomplish at least two objectives:
 - Recognize that the opinion should address whether the financial statements are fairly presented in all material respects and prepared in accordance with authoritative accounting principles (e.g., promulgated by FASB, GASB, FASAB, IFAC)
 - Update the audit reporting model to link it with the new financial reporting model, and provide appropriate degrees of assurance for each type of information to improve value and reduce risk
- We need to ultimately go global in connection with all major accounting and audit matters
- We need to coordinate domestic efforts in the interim (e.g., auditing standards coordinating forum)

Key Concepts in the Accountability Profession

- Public vs. personal interests
- Recognizing the difference between the floor (e.g., law, accounting standards) and the ceiling (e.g., principles, values)
- Doing what is right vs. what is acceptable
- Economic substance vs. legal form
- Being concerned with both fact and appearance (e.g., independence)
- Using judgment vs. completing checklists
- Recognizing that continuing improvement in today's rapidly changing world is essential
- Trust is hard to earn, but easy to lose

Three Key Personal Attributes Needed for These Challenging and Changing Times

- *Leadership*
- *Integrity*
- *Innovation*

Possible AAA Activities

Primary Role:

- Conduct research and publish works dealing with current and emerging challenges.
- Re-examine and revise, as appropriate, curricula for both accounting majors and other business majors in light of past experience, future needs and existing expectation gaps (e.g., financial statements and reporting, what an audit is and isn't, ethics, financial literacy, globalization and selected governmental issues).
- Pursue fellowship opportunities with selected public, private and not-for-profit sector entities.

Possible AAA Activities

Supporting Role:

- Promoting individual financial literacy
- Promoting public education and action on key financial reporting and fiscal challenges (e.g., federal government)
- Promoting modernization of the accounting/reporting and attest/assurance models, as well as the accounting profession



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